economic trends

April 2014

Alberta records large industry gains

Industries in Alberta continue to outperform. Real GDP by industry expanded by 3.9% in 2013, almost twice as fast as the national average, and third-fastest of all provinces after Saskatchewan and Newfoundland. Growth was broad-based across industries, with flood reconstruction, bumper crops and continued gains in the energy sector all playing a major role. This marks the fourth consecutive year of more than 3% annual growth. Economic indicators so far in 2014 are signalling continued strength, with the housing market tightening and exports growing at a brisk pace.

Key Indicators — Seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	March	2,261	+4.0%
Unemployment Rate	March	4.9%	0.0 p.p.
CPI Inflation	March	3.9%	+2.7 p.p.
Retail Sales	February	$6.5B	+8.3%
Housing Starts (annualized)	March	39,926	+17.9%
Rigs Drilling (unadjusted)	April	143	23.9%
Manufacturing Shipments	February	$6.5B	+5.9%
Exports (unadjusted)	February	$8.7B	+7.1%

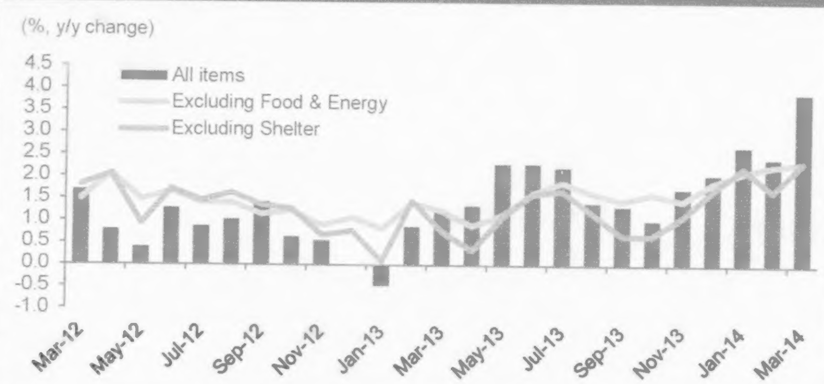
Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Alberta Household Sector

Energy costs drive consumer prices higher

Alberta's inflation rate has trended higher since October, and March's spike to 3.9% was the highest reading in five-and-a-half years. The jump in inflation was mainly due to a surge in natural gas costs, which spiked more than 80% year-over-year (y/y), reflecting cold weather and massive inventory withdrawals. Removing volatile items like food and energy indicates that underlying inflation pressures, while also increasing, are more subdued (Figure 1). Alberta inflation excluding food and energy has remained above 2% in the first three months of this year, driven primarily by increasing shelter costs, namely accommodation and utilities.

Figure 1. Growth in the Alberta Consumer Price Index



Source: Statistics Canada

It's a seller's market

Alberta's sales-to-new-listings ratio, a measure of housing market tightness, has diverged from the rest of Canada since early 2012. While Canada has been in balanced market conditions - between 0.48 and 0.55 - Alberta's ratio now stands at 0.66 as of March. With listings holding fairly steady, the higher ratio mainly reflects increased sales.

Build them if you need them

With the market tightening and migrants arriving, new housing starts have also continued to trend higher, bucking the national downward trend. In March 2014, housing starts in Alberta were 15.0% above the province's 10-year average. In comparison, Canada's starts sat 23.6% below their 10-year average last month.

Filling the gap

Alberta's job vacancy rate has fallen to its lowest rate since the series started in March 2011, likely reflecting large inflows of migrants joining Alberta's workforce. Nevertheless, Alberta still has the highest job vacancy rate of the Canadian provinces.

New vehicle sales shift to reverse; retail sales maintain momentum

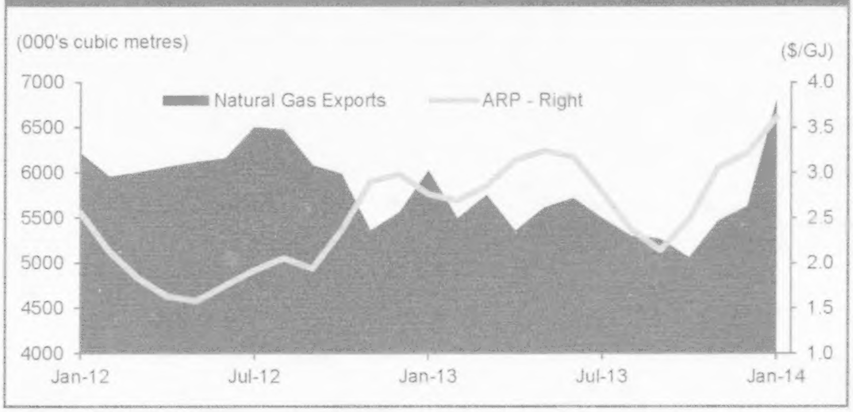
After four years of very strong growth, motor vehicles sales have started to edge lower. In the first two months of this year, sales have fallen on a year-over-year basis for the first time since November 2009 after surging by over 10% in 2013. Despite this drop, overall retail spending remains robust, surging 9.1% in the first two months of 2014 over the same time last year.

Alberta Business Sector

Oil and gas exports ramp up

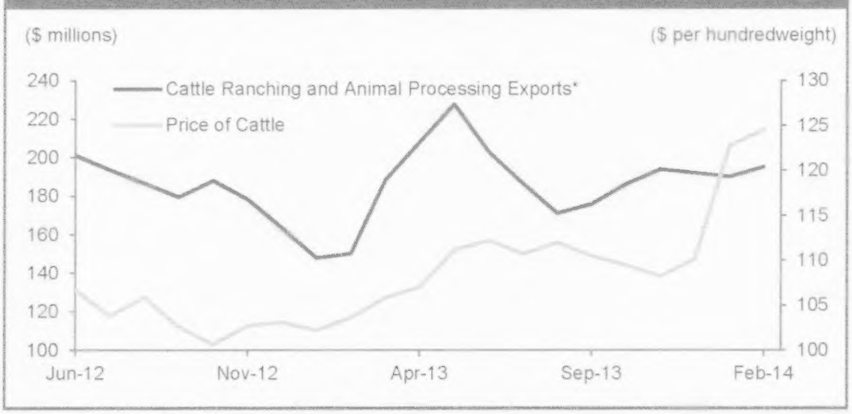
The cold winter resulted in significant draws on Canadian and US stores of natural gas, which has led to higher prices. The Alberta Reference Price for natural gas has increased sharply over the last few months, and rig activity, along with inventory withdrawals have picked up. Exports of natural gas are at their highest level since January 2011, but are still well below record export levels (Figure 2).

Figure 2. Alberta Natural Gas Exports and Price



Source: Statistics Canada
ARP Alberta reference price for natural gas

Figure 3. Alberta Livestock Market



Source: Statistics Canada
* Three month moving average

In the oil patch, exports of crude oil are rising at a brisk pace, with producers benefiting from recent tightening in oil price differentials. Both the light (WTI-Brent) and heavy (WTI-WCS) oil differentials have shrunk over the last three months after expanding during the fourth quarter of 2013.

Ranchers benefit from price jump

Cattle and hog prices have increased sharply over the last four months (Figure 3), following a near record low in US cattle production and the rapid spread of swine disease in producing states. Cattle prices have been increasing steadily over the last four years, partly as a result of decreasing US ranching land. Alberta ranchers are reaping the benefits, with higher prices helping offset lower production since October 2013.

Global Economy

IMF expects global growth to accelerate

The International Monetary Fund expects global real GDP growth to accelerate from 3.0% last year, to 3.6% in 2014 and 3.9% in 2015. Renewed growth in advanced economies, led by the US, that began in the second half of 2013 is expected to continue into 2014 and beyond. The outlook for emerging markets has deteriorated modestly, in part due to the ongoing conflict in the Ukraine, which has caused the IMF to downgrade the forecast for Russian growth by 0.6 percentage points in 2014.

Bank of Canada maintains course

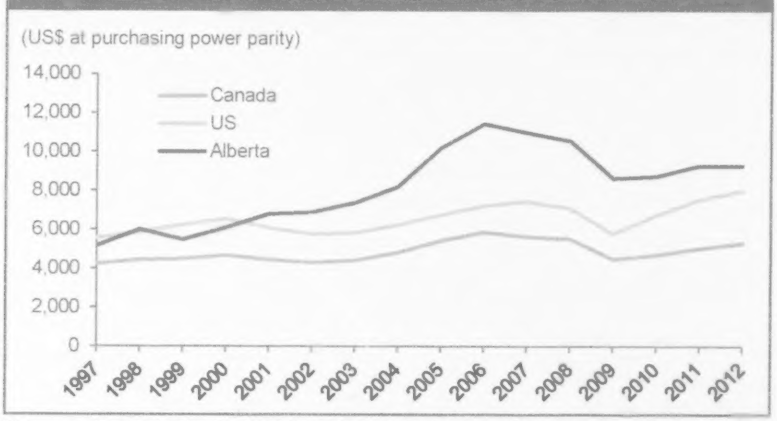
The Bank of Canada now expects total CPI inflation to return to its 2% target in the first quarter of 2015, three quarters sooner than previously predicted. Despite higher expected inflation, the Bank remained neutral on the timing and direction of the next interest rate change. The Bank was careful to point out that the forecast was largely unchanged for core CPI, which is a better measure of underlying inflation. The higher profile for total CPI is mostly due to energy prices, particularly natural gas, which is excluded from core CPI.

M&E spending in Canada: how Alberta stacks up

What makes a worker more productive? Firms can improve worker productivity through investments in people, including on-the-job training, or through better management and processes. They can also improve labour productivity by investing in machinery and equipment (M&E), which includes assets like computers, industrial tools, and transportation equipment.

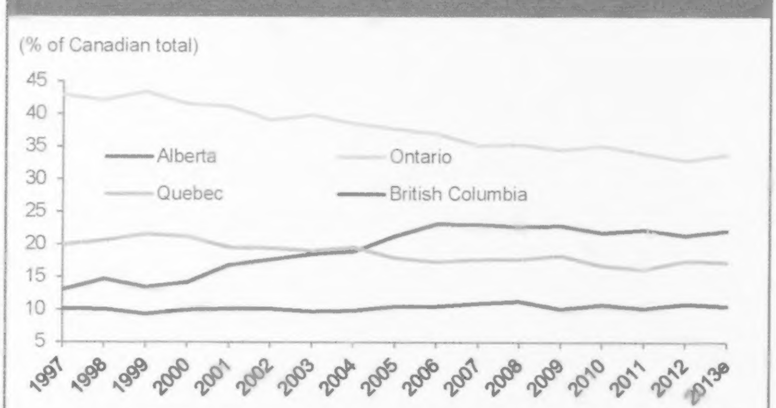
This Infocus looks at Alberta's spending on M&E in a national and North American context, and discusses the province's role in driving the national M&E numbers.

Figure 1. M&E Investment Per Worker, Business Sector



Sources: Centre for the Study of Living Standards, Statistics Canada, Alberta Treasury Board and Finance.

Figure 2. Share of Canadian M&E Investment



Source: Statistics Canada.

Low M&E investment and Canada's productivity challenge

Canada has long struggled to boost productivity levels, especially compared with the US. One of the likely culprits is chronically low spending on M&E, including information and communication technologies (see CBOC, 2011; Rio, Tang and Wang, 2008). Canadian M&E investment per worker is roughly two-thirds that of US, and the gap has widened over time (Figure 1).

The picture does not improve significantly when looking at recent observations. Real spending on Canadian M&E was flat in 2013 and, unlike the US, has still not revisited its pre-recession peaks. This occurred despite a stronger Canadian dollar over the last decade, which has lowered the costs of imported M&E, and an improving global economy. One possible explanation is that Canada's export recovery has been unusually slow. With sales still weak abroad, companies may be reluctant to invest.

Rising share of M&E spending taking place in Alberta

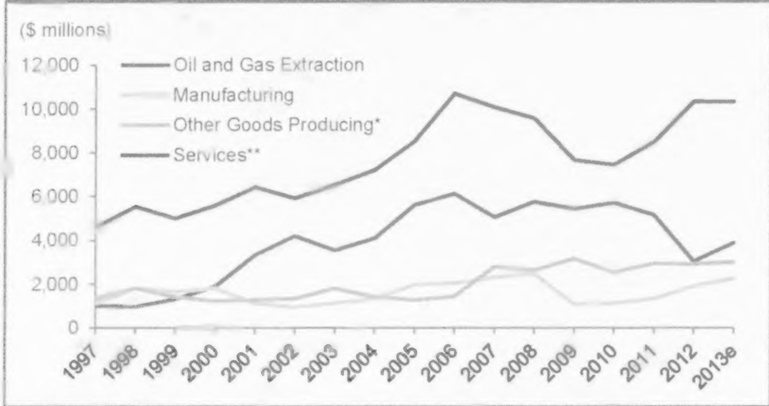
The national measures of M&E mask a great deal of variation across provinces. Alberta has a business sector M&E-to-worker ratio that exceeds the national average by nearly 75% (Figure 1), and has driven up national M&E spending since the early 2000s. Over the last decade, Alberta's M&E spending has increased by over 50%, double the national rate, pushing Alberta's share of Canada's M&E investment higher (Figure 2).

Alberta's recent M&E gains driven outside the oil and gas industry

One obvious explanation for Alberta's relatively high growth in M&E spending is the rapid growth in the oil and gas industry; however, the industry data reveal something more broad-based. While the oil and gas industry - in particular the oil sands - has been the primary driver for overall investment spending in the province over the last decade, most of the new investment has been in engineering structures, not in M&E.

After a large run-up in the early 2000s, M&E investment in the oil and gas industry has tapered off (Figure 3). Much larger M&E spending gains have been observed in manufacturing (+99%), agriculture and forestry (+44%), and most service-producing industries, such as retail trade (+50%) over the past decade.

Figure 3. Alberta M&E Investment by Industry

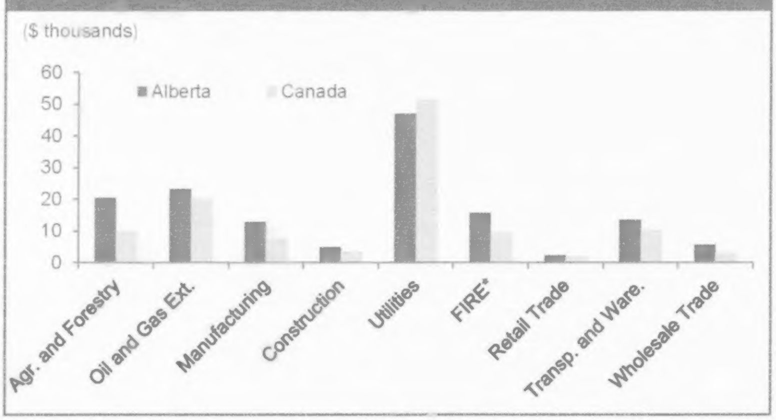


Source: Statistics Canada

* Includes agriculture and forestry, construction and utilities

** Excludes public administration

Figure 4. Alberta M&E Investment Per Worker by Industry, 2012



Source: Statistics Canada

* Finance, Insurance and Real Estate

Alberta's M&E per worker ratio higher across several industries

Alberta's economy, like many resource-based economies, is highly capital-intensive. Investment per worker has been higher in Alberta than in any other province over the past decade.

While the oil and gas industry plays the main role in explaining Alberta's high overall capital intensity, it plays a much smaller role in explaining Alberta's high M&E intensity. In 2012, the oil and gas extraction industry made up a fifth of Alberta's business in M&E, well below its 70% share of Alberta's business investment in other assets.

Figure 4 shows that Alberta's relatively high M&E-per-worker ratio reflects strength across several industries, not just oil and gas extraction.

Conclusion

Alberta has seen its spending on M&E increase sharply since the early 2000s. Per worker, the province is now a relatively large spender on M&E across industries. This is a welcome sign, as M&E promotes greater productivity by giving workers access to much-needed tools and technology.

Further gains in M&E are expected. The Statistics Canada investment intentions survey shows that organizations intend to increase their M&E investment by 6.6% this year in Alberta.

Sources:

Conference Board of Canada (CBOC, 2011) "Investment and Productivity: Why is M&E investment important to labour productivity?" (April 2011).

Rao, Tang and Wang (2008) "What Explains the Canada-US Labour Productivity Gap?", Canadian Public Policy, Vol. 34, No. 2 (Jun., 2008), pp. 163-192.

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